

**SUMMARY ANALYSIS OF AMENDED BILL**

Author: Plescia Analyst: Kristina E. North Bill Number: AB 505  
 Related Bills: See Prior Analysis Telephone: 845-6978 Amended Date: April 10, 2007  
 Attorney: Daniel Biedler Sponsor: \_\_\_\_\_

**SUBJECT:** Qualified Vehicle Credit

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

X AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced February 20, 2007.

X FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 20, 2007, STILL APPLIES.

OTHER – See comments below.

**SUMMARY**

This bill would provide a tax credit for qualified vehicle costs.

**SUMMARY OF AMENDMENTS**

The April 10, 2007, amendments added language that would limit the amount of the credit to \$500.

As a result of the amendments, the implementation concern related to an unspecified rate is resolved and a revised revenue estimate is provided below. The remaining implementation considerations still apply and are restated below for convenience. Except for the revised "Implementations Considerations" and "Economic Impact" sections included in this analysis, the remainder of the department's analysis of the bill as introduced February 20, 2007, still applies.

**POSITION**

Pending.

Board Position:

\_\_\_\_\_ S \_\_\_\_\_ NA \_\_\_\_\_ NP  
 \_\_\_\_\_ SA \_\_\_\_\_ O \_\_\_\_\_ NAR  
 \_\_\_\_\_ N \_\_\_\_\_ OUA X PENDING

Legislative Director

Date

Patrice Gau-Johnson  
for Brian Putler

5/11/07

## IMPLEMENTATION CONSIDERATIONS

The department has identified the following implementation concerns. Department staff is available to work with the author's office to resolve these and other concerns that may be identified.

The term "amount...paid or incurred" is undefined and could include costs for unintended items, such as tire replacement, fuel purchase, or other costs.

This bill fails to limit the credit to a purchase or initial lease of a qualified vehicle, and thus the credit could be available for any amount paid in connection with a vehicle that is purchased, leased, or rented, including extended warranties, sales or use tax, or service contracts.

This bill fails to limit the credit to the year of purchase or use, so the credit could be available in later years for expenses such as registration fees and insurance as well as fuel and maintenance costs for as long as the taxpayer owns the vehicle. The bill would also appear to allow interest and principal on loans to purchase the vehicle as expenses eligible for the credit.

This bill fails to limit the credit to the first purchase or use, so the credit could be claimed several times as the vehicle is transferred, leased, or rented.

This bill fails to limit the credit to end users/consumers and could include a credit for other taxpayers, such as car dealers, lessors, or rental companies. In addition, in the case of a lessor and a rental company, both could get the credit for the purchase of the vehicle.

The department lacks the expertise necessary to determine which vehicles would qualify for this credit. The author may wish to consider having a third-party, such as the Department of Motor Vehicles, certify which vehicles qualify for this credit.

## **ECONOMIC IMPACT**

### Revenue Estimate

This bill would result in the following revenue losses.

Estimated Revenue Impact of AB 505 Effective for Tax Years BOA 1/1/2007 Assumed Enactment Date After 6/30/07 (\$ in Millions)		
2007/08	2008/09	2009/10
-\$100	-\$130	-\$165

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this bill.

### Revenue Discussion

The revenue impact of this bill is dependent on the amount of qualified vehicle expenses paid or incurred by taxpayers during a taxable year (beginning on or after January 1, 2007) and the amount of credits that can be applied to reduce tax liabilities. Because qualified expenses are broadly defined, both the amount paid for the initial purchase or lease of the vehicle and annual ongoing expenses, such as fuel and maintenance costs, or ongoing lease payments, could qualify for the credit. The creditable expenses, although limited to \$500 per individual and corporate taxpayer, are not limited to expenses paid within California. This credit does not have a sunset date and allows unused credits in any year to be carried over until exhausted.

Based on an analysis of market projections, as well as data provided by the Department of Motor Vehicles, registered hybrid and alternative fuel vehicles are projected to total 215,000 by the end of 2007.

To account for non-qualified government transactions, the 215,000 hybrid and alternative fuel vehicles registered are reduced by 15%, to 183,000. Applying the creditable amount of \$500 per vehicle, credits available for use would total \$92 million (183,000 vehicles x \$500 vehicle expenses). To account for out-of-state qualified vehicle expenses that could be used to offset California tax liabilities, total credits are increased by 25%, to \$115 million (92 million x 125%). It is assumed that 75% or \$85 million (\$115 million x 75%) in credits would be applied during the year generated and that the remaining 25% would be carried forward and applied ratably in the succeeding two taxable years.

Of the \$85 million in credits applied for taxable year 2007, a large portion would impact fiscal year 2007/08. Additionally, fiscal year 2007/08 would also include adjustments to estimated payments for a small portion of credits generated during tax year 2008.

### **LEGISLATIVE STAFF CONTACT**

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